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# Chain Store Age EXECUTIVE

*with Shopping Center Age*

*The newsmagazine for retail management*

August 1988

# THE EXEC 100

## Retailing's top achievers

## Plotting winning strategies

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TWENTY FIVE DOLLARS A YEAR (USA)

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*Chain Store Age Executive* presents a brand new way of assessing the performance of America's largest publicly-held retailers. Instead of being based on annual revenues, the rankings reflect the sales and earnings increases, as well as the return on assets, achieved by each of these companies. Companies which posted losses in 1987 are excluded. . . *14*

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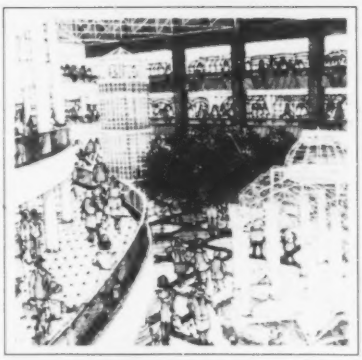

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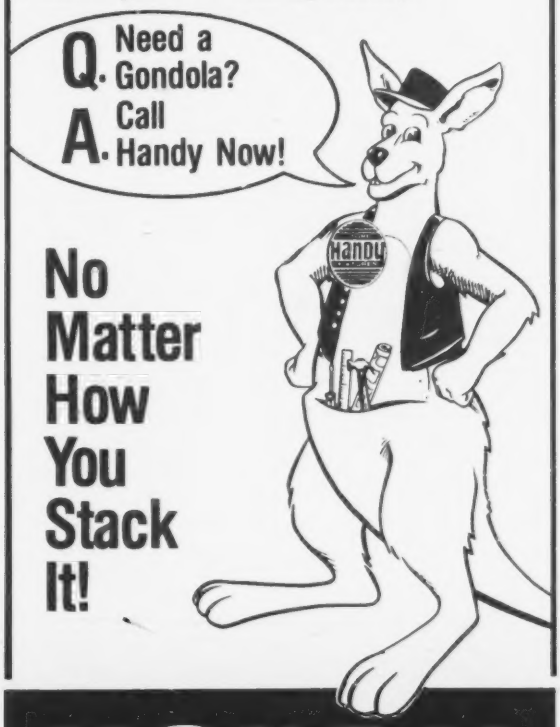


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WILLIAMS-SONOMA: SAN FRANCISCO-BASED CHAIN FINISHES IN FIRST PLACE ON THIS YEAR'S EXEC 100 SCORECARD

# EXEC 100: RETAILING'S TOP ACHIEVERS

## NEW PERFORMANCE INDEX HIGHLIGHTS COMPANIES WITH WINNING STRATEGIES

Williams-Sonoma, the San Francisco-based mail order and retail housewares operation that went public slightly over a year ago, emerges as the first place finisher in the EXEC 100 rankings of retail companies.

While in previous years the EXEC 100 listed the nation's largest retailers based on sales volume, this year heralds the debut of a brand-new performance index. This index includes year-to-year sales and profits percentage increases, plus return on assets, based on total assets as of the end of the most recent fiscal year.

Due to the amount of financial data needed to make accurate performance assessments, only publicly-held companies are rated. In addition, the rankings of some companies are adjusted to reflect unusual income gains and/or charges against earnings.

The companies who head the list are the retail industry's "high achievers." Along with Williams-Sonoma, other companies making the top five include Drug Emporium (which went public just last month), Home Depot, Tiffany and Businessland. What each of these companies have in common are well-defined retail concepts, strong operating controls and an ability to keep their customers' needs clearly in focus.

Admittedly, the new EXEC 100 index is somewhat biased in favor of some smaller firms (although companies with annual revenues of less than $100 million are excluded from the rankings). For them, hefty percentage increases are easier to come by than for large, well-established firms.

Still, the top 20 in this new ranking system include eight companies with sales well in excess of $2 billion annually. Among these is Wal-Mart, the nation's fourth largest publicly-held retailer, which captured the No. 11 spot. *(For full financial details, see accompanying chart.)*

The year 1987 wasn't a good one for the retail industry in general, but the rankings show that there were some standout successes.

For example, although as a group consumer electronics retailers suffered badly, Circuit City managed to achieve 34% sales growth, a 43% rise in profits and a return on assets of 12%.

Similarly, although it proved to be a tough year for the drug store business as well, Rite Aid holds the No. 15 spot and Big B, a real up-and-comer, is No. 9. *(For more on the drug store industry, see story this issue.)*

Even apparel retailers fared somewhat better than most industry observers would have expected. Gantos, with stores featuring a carefully edited mix of women's career apparel and weekend wear, took the EXEC 100's No. 13 spot.

Once-stellar performer The Limited didn't fare so well, though, ending up at No. 61. Earnings gains were only 3%, but that is beginning with a base of $227.8 million at the end of 1986 and which rose to $235.2 million

last year. Sales increased a rather modest 12%, but nonetheless allowed the company to break the $3.5 billion annual sales mark.

The Limited's lackluster performance (when it comes to percentage increases, at least) is only one indication of the enormous changes that have taken place in the retail industry over the past year. Many of these are reflected on the EXEC 100 chart.

First and foremost are those changes caused by the mergers and acquisitions mania. Federated Department Stores, No. 54 on this year's EXEC 100 based on 1987's performance, but this year gobbled up by Campeau Corp., is but one example of a retailing entity that no longer exists. Not only will Federated itself not be back on next year's list, but other names are likely to disappear for the same reason.

Even when companies don't fall victim to a hostile takeover, they may still be forced to take evasive action to avoid such a fate. Often this means going private through a leveraged buyout. Such companies are also excluded from the EXEC 100.

Many experts believe that it won't be too long until the pendulum swings and several of these major players go public again.

In the meantime, there are a host of up-and-comers entering the public arena. For the most part, their success illustrates some of the major shifts in consumer preferences—and the growth of new retail sectors.

For example, it's only been a few years since deep discount drug stores

# EXEC 100

| Chains | 1987 Sales (millions) | 1986 Sales (millions) | % Change | 1987 Earnings (millions) | 1986 Earnings (millions) | % Change | 1987 Earnings as % of sales | 1986 Earnings as % of sales | Return on equity | Return on assets | Existing units 1987 | Units to be added 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Williams-Sonoma | $ 136.8 | $ 100.4 | 36.0 | $ 3.4 | $ 1.2 | 183.0 | 3.0 | 1.0 | 17.0 | 16.0 | 86 | 14 |
| 2. Drug Emporium | 322.2 | 241.0 | 34.0 | 4.5 | 1.5 | 141.0 | 1.0 | 0.7 | 18.0 | 9.0 | 137 | N/A |
| 3. Home Depot | 1,453.7 | 1,011.5 | 44.0 | 54.1 | 23.9 | 127.0 | 4.0 | 4.0 | 22.0 | 10.0 | 75 | 21 |
| 4. Tiffany | 230.5 | 182.5 | 26.0 | 16.2 | 7.4 | 118.0 | 7.0 | 4.0 | 14.0 | 12.0 | 10 | 1 |
| 5. Businessland | 600.0 | 404.3 | 48.4 | 8.4 | 4.8 | 75.0 | 1.0 | 1.0 | 9.0 | 3.0 | 94 | N/A |
| 6. Circuit City | 1,350.4 | 1,010.7 | 34.0 | 50.4 | 35.3 | 43.0 | 4.0 | 4.0 | 29.0 | 12.0 | 105 | 20 |
| 7. The Sharper Image | 160.9 | 121.0 | 32.0 | 5.6 | 3.2 | 75.0 | 3.0 | 2.0 | 34.0 | 10.0 | 45 | 16 |
| 8. Costco | 1,370.0 | 747.0 | 83.0 | 5.1 | 4.5 | 13.0 | 0.3 | 0.6 | 6.0 | 1.0 | 42 | 9 |
| 9. Big B | 249.0 | 210.0 | 18.0 | 7.3 | 4.5 | 62.0 | 2.0 | 2.0 | 12.0 | 7.0 | 188 | 25 |
| 10. Wolohan Lumber | 228.6 | 194.3 | 17.0 | 9.0 | 5.3 | 69.0 | 3.0 | 2.0 | 22.0 | 10.0 | 42 | 5 |
| 11. Wal-Mart | 15,959.0 | 11,909.0 | 34.0 | 627.6 | 450.1 | 39.0 | 4.0 | 4.0 | 28.0 | 12.0 | 1,198 | 147 |
| 12. Agway[1*] | 205.1 | 225.9 | 9.0 | 2.9 | 1.7 | 71.0 | N/A | N/A | N/A | 4.0 | N/A | N/A |
| 13. Gantos | 133.0 | 98.4 | 35.0 | 6.2 | 4.5 | 37.7 | 5.0 | 5.0 | 22.0 | 9.0 | 84 | 23 |
| 14. Hechinger | 725.1 | 588.4 | 23.0 | 41.9 | 28.2 | 49.0 | 6.0 | 5.0 | 16.0 | 7.0 | 79 | 7 |
| 15. Giant Food | 2,721.3 | 2,528.5 | 7.0 | 75.6 | 46.5 | 63.0 | 3.0 | 2.0 | 23.0 | 9.0 | 144 | 4 |
| 16. Rite-Aid | 2,486.3 | 1,756.7 | 42.0 | 144.5 | 78.0 | 85.0 | 6.0 | 4.0 | 28.0 | 12.0 | 2,233 | 50 |
| 17. Food Lion | 2,900.0 | 2,400.0 | 21.0 | 85.8 | 61.8 | 39.0 | 3.0 | 3.0 | 21.0 | 11.0 | 475 | 100 |
| 18. Toys "R" Us | 3,137.0 | 2,445.0 | 2.8 | 204.0 | 152.0 | 34.0 | 7.0 | 6.0 | 20.0 | 10.0 | 387 | 80 |
| 19. Dress Barn[2] | 173.7 | 135.8 | 28.0 | 12.9 | 9.2 | 40.2 | 7.0 | 7.0 | 39.0 | 21.0 | 263 | 52 |
| 20. Pier 1 Imports | 327.2 | 262.3 | 25.0 | 16.1 | 12.0 | 34.0 | 5.0 | 5.0 | 19.0 | 6.0 | 396 | N/A |
| 21. J. Baker | 200.7 | 165.8 | 21.0 | 7.5 | 6.4 | 17.0 | 4.0 | 4.0 | 23.0 | 24.0 | 81 | 35 |
| 22. Seaway Food Town | 457.8 | 423.6 | 8.0 | 2.6 | 1.7 | 53.0 | 0.5 | 0.4 | 12.0 | 2.0 | 73 | N/A |
| 23. Pace Membership Warehouse | 939.6 | 595.1 | 58.0 | 7.7 | (1.1) | N/A | 0.8 | N/A | 8.0 | 3.0 | 32 | 4 |
| 24. L. Luria & Sons | 205.2 | 172.4 | 19.0 | 6.3 | 4.6 | 37.0 | 3.0 | 3.0 | 10.0 | 5.0 | 43 | 8 |
| 25. Tandy | 3,452.0 | 3,035.0 | 14.0 | 242.3 | 197.7 | 23.0 | 7.0 | 6.0 | 18.0 | 23.0 | 7,318 | N/A |
| 26. Fay's Drug | 500.4 | 452.3 | 11.0 | 5.9 | 4.1 | 44.0 | 1.0 | 1.0 | 11.0 | 4.0 | 185 | 25 |
| 27. Fred Meyer | 1,874.8 | 1,688.2 | 11.0 | 32.0 | 22.5 | 42.0 | 1.0 | 1.0 | 15.0 | 5.0 | 99 | 4 |
| 28. Price | 3,323.0 | 2,666.6 | 25.0 | 73.3 | 58.9 | 24.0 | 2.0 | 2.0 | 30.0 | 9.0 | 34 | 4 |
| 29. Dollar General | 588.4 | 564.8 | 4.0 | 6.5 | 4.3 | 51.0 | 1.0 | 1.0 | 6.0 | 3.0 | 1,329 | N/A |
| 30. Merry-Go-Round Ent. | 225.2 | 207.5 | 9.0 | 10.1 | 7.5 | 35.0 | 5.0 | 4.0 | 21.0 | 12.0 | 432 | N/A |
| 31. Nordstrom | 1,920.2 | 1,629.9 | 18.0 | 92.7 | 72.9 | 27.0 | 5.0 | 5.0 | 19.0 | 8.0 | 56 | 3 |
| 32. U.S. Shoe | 2,167.6 | 2,003.2 | 8.0 | 52.1 | 25.5 | 104.0 | 2.0 | 1.0 | 10.0 | 5.0 | 1,944 | 210 |
| 33. Wickes[1*] | 1,083.8 | 785.8 | 38.0 | 57.3 | 25.3 | 126.0 | N/A | N/A | N/A | 14.0 | 174 | N/A |
| 34. Burlington Coat Factory | 490.6 | 391.6 | 25.0 | 20.3 | 17.3 | 17.0 | 4.0 | 4.0 | 14.0 | 7.0 | 111 | 7 |
| 35. Hannaford Bros. | 1,033.4 | 910.2 | 14.0 | 24.1 | 18.8 | 28.0 | 2.0 | 2.0 | 19.0 | 8.0 | 98 | 5 |
| 36. Circle K | 2,289.0 | 2,111.3 | 8.0 | 49.4 | 39.2 | 26.0 | 2.0 | 2.0 | 19.0 | 14.0 | 3,507 | N/A |
| 37. Kroger | 17,700.0 | 17,100.0 | 4.0 | 183.3 | 55.8 | 228.0 | 1.0 | 0.3 | 16.0 | 9.0 | 889 | 60 |
| 38. Dillard | 2,206.3 | 1,851.4 | 19.0 | 91.2 | 74.5 | 22.0 | 4.0 | 4.0 | 15.0 | 6.0 | 135 | 7 |
| 39. Strawbridge & Clothier | 814.3 | 739.1 | 10.0 | 27.0 | 20.7 | 30.0 | 3.0 | 3.0 | 5.0 | 5.0 | 34 | 1 |
| 40. Melville | 5,930.3 | 5,262.4 | 13.0 | 285.4 | 238.3 | 20.0 | 5.0 | 5.0 | 21.0 | 13.0 | 6,117 | 352 |
| 41. Long's | 1,772.0 | 1,635.0 | 8.0 | 49.2 | 38.6 | 27.0 | 2.0 | 2.0 | 16.0 | 10.0 | 229 | 13 |
| 42. Ames | 2,111.9 | 1,888.5 | 12.0 | 34.2 | 27.1 | 26.0 | 2.0 | 1.0 | 9.0 | 4.0 | 488 | 45 |
| 43. MicroAge | 203.0 | 164.8 | 23.0 | 3.5 | (3.2) | N/A | 2.0 | N/A | 39.0 | 19.0 | 199 | N/A |
| 44. The Gap | 1,062.0 | 848.0 | 25.0 | 69.6 | 68.1 | 2.0 | 7.0 | 8.0 | 29.0 | 16.0 | 815 | 103 |
| 45. Pep Boys | 553.8 | 485.9 | 14.0 | 34.3 | 28.1 | 22.0 | 6.0 | 6.0 | 16.0 | 7.0 | 207 | 47 |
| 46. Charming Shoppes | 638.7 | 521.2 | 23.0 | 42.6 | 40.5 | 5.0 | 7.0 | 8.0 | 25.0 | 15.0 | 840 | 100 |
| 47. Kay Jewelers | 367.9 | 278.1 | 32.0 | 10.5 | 9.7 | 8.0 | 3.0 | 3.0 | 23.0 | 3.0 | 443 | N/A |
| 48. Arbor Drugs | 215.3 | 151.5 | 39.0 | 5.2 | 5.3 | 3.0 | 2.0 | 3.0 | 15.0 | 7.0 | 74 | 10 |
| 49. Super-Rite[3] | 642.0 | 603.0 | 6.0 | 5.0 | 3.8 | 31.0 | 0.8 | 0.6 | 14.0 | 4.0 | 36 | 3 |
| 50. Albertsons | 5,869.4 | 5,379.6 | 9.0 | 125.4 | 100.1 | 25.0 | 2.0 | 2.0 | 20.0 | 7.0 | 465 | 175 |

* Operating income ( ) Loss N/A Not available [1] Retail operations only [2] Figures for year ended July 30, 1987 [3] Includes results from distribution operations

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| Chains | 1987 Sales (millions) | 1986 Sales (millions) | % Change | 1987 Earnings (millions) | 1986 Earnings (millions) | % Change | 1987 Earnings as % of sales | 1986 Earnings as % of sales | Return on equity | Return on assets | Existing units 1987 | Units to be added 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 51. F. W. Woolworth | $ 7,134.0 | $ 6,501.0 | 10.0 | $251.0 | $214.0 | 17.0 | 4.0 | 3.0 | 16.0 | 13.0 | 3,127 | N/A |
| 52. Oshman's | 332.7 | 322.9 | 3.0 | 3.6 | 2.7 | 33.0 | 1.0 | 1.0 | 6.0 | 3.0 | 213 | 12 |
| 53. J. C. Penney | 15,332.0 | 14,740.0 | 4.0 | 608.0 | 478.0 | 27.0 | 4.0 | 3.0 | 14.0 | 6.0 | 1,785 | N/A |
| 54. Federated Dept. Stores | 11,117.8 | 10,512.4 | 6.0 | 313.0 | 287.6 | 25.0 | 3.0 | 3.0 | 12.0 | 5.0 | 605 | N/A |
| 55. K mart | 25,627.0 | 23,812.0 | 8.0 | 692.0 | 570.0 | 21.0 | 2.0 | 2.0 | 16.0 | 6.0 | 3,934 | 55 |
| 56. Super Valu[3] | 9,371.7 | 9,065.8 | 3.0 | 111.8 | 89.3 | 25.0 | 1.0 | 1.0 | 18.0 | 5.0 | 171 | N/A |
| 57. A&P | 9,531.3 | 7,834.8 | 21.0 | 103.4 | 95.0 | 8.0 | 1.0 | 1.0 | 13.0 | 5.0 | 1,183 | 36 |
| 58. May Dept. Stores | 10,314.0 | 9,500.0 | 9.0 | 444.0 | 381.0 | 17.0 | 4.0 | 4.0 | 17.0 | 7.0 | 2,877 | 255 |
| 59. Weis Markets | 1,128.3 | 1,101.5 | 2.0 | 76.0 | 65.3 | 16.0 | 7.0 | 6.0 | 18.0 | 14.0 | 116 | N/A |
| 60. Mercantile Stores | 2,155.6 | 2,028.2 | 6.0 | 129.6 | 111.1 | 17.0 | 6.0 | 5.0 | 16.0 | 10.0 | 79 | 2 |
| 61. The Limited | 3,527.9 | 3,142.7 | 12.0 | 235.2 | 227.8 | 3.0 | 7.0 | 7.0 | 31.0 | 15.0 | 3,095 | 125 |
| 62. Marsh | 848.1 | 772.2 | 10.0 | 7.8 | 6.7 | 16.0 | 1.0 | 1.0 | 15.0 | 4.0 | 242 | 2 |
| 63. Lowe's | 2,442.2 | 2,283.5 | 7.0 | 61.2 | 52.2 | 17.0 | 3.0 | 2.0 | 11.0 | 6.0 | 295 | 7 |
| 64. Best Products | 2,066.6 | 2,142.1 | 4.0 | 30.5 | (25.6) | N/A | 1.0 | N/A | 8.0 | 24.0 | 216 | 0 |
| 65. Strober | 101.6 | 92.4 | 9.0 | 5.3 | 5.0 | 6.0 | 5.0 | 5.0 | 22.0 | 12.0 | 12 | 2 |
| 66. Walgreen[4] | 4,281.6 | 3,660.6 | 17.0 | 103.5 | 103.1 | 0.4 | 2.0 | 3.0 | 18.0 | 8.0 | 1,356 | 100 |
| 67. Bruno's[5] | 1,143.2 | 1,018.4 | 12.0 | 31.0 | 30.3 | 2.0 | 3.0 | 3.0 | 16.0 | 10.0 | 109 | 15 |
| 68. Consolidated Stores | 571.2 | 378.9 | 51.0 | 13.0 | 19.4 | 33.0 | 2.0 | 5.0 | 11.0 | 5.0 | 295 | 30 |
| 69. Publix | 4,186.6 | 3,796.8 | 10.0 | 87.2 | 84.3 | 3.0 | 2.0 | 2.0 | 14.0 | 9.0 | 329 | 29 |
| 70. Ingles | 666.9 | 590.7 | 13.0 | 9.2 | 8.6 | 7.0 | 1.0 | 1.0 | 11.0 | 3.0 | 122 | 18 |
| 71. Schulz Sav-O Stores | 412.7 | 406.6 | 1.0 | 2.7 | 2.4 | 13.0 | 0.6 | 0.5 | 19.0 | 5.0 | N/A | N/A |
| 72. Hills Dept. Stores | 1,514.3 | 1,343.1 | 13.0 | 32.5 | (14.8) | N/A | 2.0 | N/A | | 4.0 | 151 | 16 |
| 73. American Stores | 14,272.4 | 14,021.5 | 2.0 | 154.3 | 144.5 | 7.0 | 1.0 | 1.0 | 15.0 | 9.0 | 1,460 | N/A |
| 74. Service Merchandise | 2,719.0 | 2,527.0 | 8.0 | 30.8 | (46.9) | N/A | 1.0 | N/A | 10.0 | 6.0 | 323 | 8 |
| 75. Jamesway | 701.4 | 612.4 | 15.0 | 11.6 | 12.1 | 4.0 | 2.0 | 2.0 | 11.0 | 4.0 | 111 | 15 |
| 76. Sears, Roebuck[6]* | 28,085.0 | 27,074.0 | 4.0 | 787.4 | 736.0 | 7.0 | 3.0 | 12.0 | 3.0 | N/A | 831 | 89 |
| 77. Wherehouse Entertainment | 225.4 | 166.5 | 35.0 | 5.2 | 7.0 | 26.0 | 2.0 | 4.0 | 10.0 | 3.0 | 195 | N/A |
| 78. Ross Stores | 576.0 | 534.4 | 7.0 | 11.5 | (41.4) | N/A | 1.0 | N/A | 11.0 | 4.0 | 131 | 15 |
| 79. Winn-Dixie | 8,803.9 | 8,225.2 | 7.0 | 112.3 | 116.4 | 3.0 | 1.0 | 1.0 | 16.0 | 8.0 | 1,271 | 10 |
| 80. Hess's Dept. Stores | 516.6 | 367.5 | 40.0 | 10.7 | 15.8 | 32.0 | 2.0 | 4.0 | 10.0 | 3.0 | 71 | 4 |
| 81. Deb Shops | 198.4 | 181.4 | 9.0 | 12.0 | 12.6 | 5.0 | 6.0 | 7.0 | 22.0 | 15.0 | 273 | N/A |
| 82. Dayton Hudson | 10,677.3 | 9,259.1 | 15.0 | 228.4 | 255.0 | 10.0 | 2.0 | 3.0 | 11.0 | 4.0 | 577 | N/A |
| 83. Family Dollar Stores | 560.3 | 487.7 | 15.0 | 24.8 | 30.5 | 19.0 | 4.0 | 6.0 | 16.0 | 10.0 | 1,272 | N/A |
| 84. National Lumber | 159.3 | 151.3 | 5.0 | 0.3 | (2,421.0) | N/A | N/A | N/A | 1.0 | 0.4 | 20 | 2 |
| 85. Batus[7]* | 2,569.0 | 2,500.0 | 4.0 | 171.0 | 197.0 | 13.0 | 8.0 | N/A | N/A | 12.0 | 197 | 1 |
| 86. Cullum Cos. | 1,002.7 | 1,036.4 | 3.0 | 18.1 | 18.0 | 0.5 | 2.0 | 2.0 | 15.0 | 6.0 | 66 | 2 |
| 87. Von's | 3,276.0 | 2,953.5 | 11.0 | 1.6 | (35.7) | N/A | 0.4 | N/A | 1.0 | 0.1 | 193 | 10 |
| 88. Jacobson's | 326.7 | 308.5 | 6.0 | 10.5 | 11.9 | 12.0 | 3.0 | 4.0 | 5.0 | 5.0 | 21 | 2 |
| 89. Paul Harris | 190.2 | 161.0 | 18.0 | 4.7 | 6.2 | 24.0 | 3.0 | 4.0 | 10.0 | 4.0 | 347 | 50 |
| 90. Pay 'N Pak | 398.4 | 333.8 | 19.0 | 5.7 | 8.1 | 30.0 | 1.0 | 2.0 | 6.0 | 3.0 | 100 | 6 |
| 91. Rose's | 1,336.8 | 1,198.9 | 11.0 | 18.1 | 24.1 | 25.0 | 1.0 | 2.0 | 10.0 | 4.0 | 99 | 19 |
| 92. Genovese Drug | 270.8 | 233.2 | 16.0 | 2.0 | 2.9 | 30.0 | 0.7 | 1.0 | 8.0 | 3.0 | 79 | 8 |
| 93. Scotty's | 515.3 | 493.9 | 8.0 | 10.3 | 13.5 | 23.0 | 2.0 | 3.0 | 6.0 | 3.0 | 141 | 33 |
| 94. Highland Appliance | 753.4 | 656.4 | 15.0 | 13.9 | 20.2 | 31.0 | 2.0 | 3.0 | 11.0 | 5.0 | 72 | 11 |
| 95. Lucky | 6,924.8 | 6,440.9 | 8.0 | 151.7 | 225.9 | 33.0 | 2.0 | 4.0 | 5.0 | 12.0 | 481 | N/A |
| 96. Zayre | 6,200.0 | 5,400.0 | 16.0 | 143.3 | 89.0 | 61.0 | 2.0 | 2.0 | 21.0 | 7.0 | 1,187 | 77 |
| 97. Petrie Stores | 1,241.5 | 1,198.4 | 4.0 | 47.5 | 73.7 | 35.0 | 4.0 | 6.0 | 9.0 | 4.0 | 1,601 | 60 |
| 98. Sound Warehouse[8] | 157.9 | 131.2 | 20.0 | 3.3 | 7.5 | 56.0 | 2.0 | 6.0 | 10.0 | 4.0 | 102 | 15 |
| 99. Payless Cashways | 1,770.2 | 1,527.7 | 16.0 | 28.1 | 42.4 | 34.0 | 2.0 | N/A | 8.0 | 3.0 | 194 | 13 |
| 100. Clothestime | 178.7 | 160.7 | 11.0 | 6.5 | 11.9 | 45.0 | 4.0 | 7.0 | 17.0 | 9.0 | 341 | 40 |

* Operating income ( ) Loss N/A Not available [3] Includes results from distribution operations [4] Fiscal year ended Aug. 31, 1987 [5] Fiscal year ended June 27, 1987
[6] Figures for Sears Merchandise Group only [7] Retail operations only [8] Fiscal year ended May 30, 1987

Source: Chain data and *Chain Store Age Executive* estimates

burst on the scene. Last month, the EXEC 100's second place finisher Drug Emporium, the first chain in this category to be widely publicized, completed a successful initial public offering.

Similarly, although office products warehouses are less than two years old, Office Depot has announced a public offering. Further, in computer-related retailing, the nation's largest computer retailer, ComputerLand, is going public. Recently, Egghead Software and Babbages, both leading retailers of computer software, also entered the public offering arena.

Along with EXEC 100 leaders Williams-Sonoma and Drug Emporium, two others in the top 10—No. 3 Tiffany and No. 6 The Sharper Image—also went public just last year.

Based on the success of these four companies, it's likely then that many of the newer companies that have completed offerings in recent months (as well as those preparing to do so soon) will be joining them in future years.

Other companies also likely to join the list are those publicly-held firms which in 1987 posted income losses. Aggressive efforts by management to achieve a turnaround should put a number of these back on next year's roster. ■

# INDUSTRY'S LEADERS KEEP ON GROWING

## WHILE 1987 WASN'T A ROBUST YEAR FOR RETAILERS, MOST OF THE MAJOR PLAYERS STILL MANAGED TO ACHIEVE MODEST SALES AND PROFITS INCREASES

## DISCOUNT STORES

### Top 10 publicly-held discount store sales leaders

| | 1987 sales | 1986 sales | % change |
|---|---|---|---|
| K mart | $25,627.0 | $23,812.0 | 8% |
| Wal-Mart | 15,959.0 | 11,909.0 | 34 |
| Zayre | 6,200.0 | 5,400.0 | 15 |
| Target | 5,306.1 | 4,354.9 | 22 |
| Ames | 2,111.9 | 1,888.5 | 12 |
| Bradlees | 2,060.0 | 1,900.0 | 8 |
| Fred Meyer | 1,874.8 | 1,688.2 | 10 |
| Hills Dept. Stores | 1,514.3 | 1,343.1 | 13 |
| Caldor | 1,502.0 | 1,348.0 | 23 |
| Rose's | 1,336.8 | 1,198.9 | 11 |

Source: Company annual reports

### Top 10 publicly-held discount store profit producers

| | 1987 net income (in millions) | 1986 net income (in millions) | % change |
|---|---|---|---|
| K mart | $692.0 | $570.0 | 21% |
| Wal-Mart | 627.6 | 450.1 | 39 |
| Target* | 322.5 | 311.0 | 4 |
| Zayre[1] | 143.3 | 89.0 | 61 |
| Venture* | 70.0 | 80.0 | (13) |
| Caldor* | 56.0 | 70.0 | (20) |
| Ames | 34.2 | 27.1 | 26 |
| Hills Dept. | 32.5 | (14.8) | N/A |
| Fred Meyer | 32.0 | 22.5 | 42 |
| Family Dollar | 24.8 | 30.5 | (19) |

* Operating profits
N/A Not available
[1] Net earnings for the entire operation, reflecting profits from sale of shares in TJX Corp.
Source: Company annual reports

## APPAREL STORES

### Top 5 publicly-held apparel chain sales leaders*

| | 1987 sales (in millions) | 1986 sales (in millions) | % change |
|---|---|---|---|
| Melville | $4,494.0 | $4,003.8 | 12% |
| The Limited | 3,527.9 | 3,142.7 | 12 |
| U.S. Shoe | 2,167.6 | 2,003.2 | 8 |
| Petrie | 1,241.5 | 1,198.4 | 4 |
| The Gap | 1,062.0 | 848.0 | 25 |

* Does not include companies which posted an income loss for their most recent fiscal year.

Source: Company annual reports

### Top 5 publicly-held apparel chain profit producers*

| | 1987 net income (in millions) | 1986 net income (in millions) | % change |
|---|---|---|---|
| Melville | $285.4 | $238.3 | 20% |
| The Limited | 235.2 | 227.8 | 3 |
| The Gap | 69.6 | 68.1 | 2 |
| U.S. Shoe | 52.1 | 25.5 | 104 |
| Petrie Stores | 47.5 | 73.7 | (35) |

* Companies that posted a loss in 1987 are not included.

Sources: Company annual reports

## DRUG STORES

### Top 5 publicly-held drug chain sales leaders

| | 1987 sales (in millions) | 1986 sales (in millions) | % change |
|---|---|---|---|
| Walgreens | $4,281.6 | $3,660.6 | 17% |
| Rite Aid[1] | 2,486.3 | 1,256.7 | 42 |
| Longs | 1,772.0 | 1,635.0 | 8 |
| CVS[2] | 1,394.7 | 1,180.6 | 18 |
| Pay 'n Save | 726.1 | 555.1 | 30 |

[1] Rite Aid's figures, for its fiscal year ended Feb. 27, 1988, include results from the acquisition of 450 stores from SuperRx and from Gray Drug Fair.
[2] Melville Corp., CVS's parent company, releases separate sales and operating earnings for the drug chain.
Source: Company annual reports

### Top 5 publicly-held drug store profit producers

| | 1987 net income (in millions) | 1986 net income (in millions) | % change |
|---|---|---|---|
| Rite-Aid | $144.5 | $78.0 | 85% |
| Walgreen | 103.5 | 103.1 | 0.4 |
| Long's | 49.2 | 38.6 | 27 |
| Fay's | 11.0 | 5.9 | 44 |
| Big B | 7.3 | 4.5 | 62 |

Source: Company annual reports

## DEPARTMENT STORES

### Top 10 publicly-held department store/general merchandise sales leaders

| | 1987 sales (in millions) | 1986 sales (in millions) | % change |
|---|---|---|---|
| Sears, Roebuck[1] | $28,085.0 | $27,074.0 | 4% |
| J.C. Penney | 15,332.0 | 14,740.0 | 4 |
| Federated Dept. Stores[2] | 8,530.8 | 8,163.4 | 5 |
| May Dept. Stores[2] | 6,205.0 | 5,773.0 | 8 |
| Batus Retail | 2,569.0 | 2,500.0 | 4 |
| Dillards | 2,206.3 | 1,851.4 | 19 |
| Mercantile Stores | 2,155.6 | 2,028.2 | 6 |
| Nordstrom | 1,920.2 | 1,629.9 | 18 |
| Dayton Hudson Dept. Store Co. | 1,552.3 | 1,566.3 | (1) |
| Strawbridge & Clothier | 814.3 | 739.1 | 10 |

[1] Includes sales of Sears Merchandise Group only
[2] Department store sales only
Source: Company annual Reports

### Top 10 publicly-held department store/general merchandise profit producers (net or operating earnings)

| | 1987 earnings (in millions) | 1986 earnings (in millions) | % change |
|---|---|---|---|
| Sears, Roebuck*[1] | $787.4 | $736.0 | 7% |
| May Dept. Stores*[2] | 618.0 | 557.0 | 11 |
| J.C. Penney | 608.0 | 478.0 | 27 |
| Federated Dept. Stores*[2] | 578.7 | 628.7 | (8) |
| Batus Retail* | 171.0 | 197.0 | (13) |
| Mercantile Stores | 129.6 | 111.1 | 17 |
| Dayton Hudson Dept. Stores | 122.4 | 165.8 | (26) |
| Nordstrom | 92.7 | 72.9 | 27 |
| Dillards | 91.2 | 74.5 | 22 |
| Strawbridge & Clothier | 27.0 | 20.7 | 30 |

* Operating earnings
[1] Sears Merchandise Group
[2] Dept. stores only
Source: Company annual reports

## SUPERMARKETS

### Top 10 publicly-held supermarket sales leaders

| | 1987 sales (in millions) | 1986 sales (in millions) | % change |
|---|---|---|---|
| Kroger | $17,700.0 | $17,100.0 | 4% |
| American Stores[1] | 14,272.4 | 14,021.5 | 2 |
| A&P | 9,531.8 | 7,834.8 | 21 |
| Winn-Dixie | 8,803.9 | 8,225.2 | 7 |
| Lucky Stores | 6,924.8 | 6,440.9 | 8 |
| Albertsons | 5,869.4 | 5,379.6 | 9 |
| Publix | 4,186.6 | 3,796.8 | 10 |
| Vons | 3,276.0 | 2,935.5 | 11 |
| Food Lion | 2,900.0 | 2,400.0 | 21 |
| Giant Food | 2,721.3 | 2,528.5 | 8 |

[1]Includes results from Osco Drugs
Source: Company annual reports

### Top 10 publicly-held supermarket profit producers

| | 1987 net income (in millions) | 1986 net income (in millions) | % change |
|---|---|---|---|
| Kroger | $183.3 | $ 55.8 | 228% |
| American Stores[1] | 154.3 | 144.5 | 7 |
| Lucky Stores | 151.7 | 225.9 | (33) |
| Albertsons | 125.4 | 100.1 | 25 |
| Winn-Dixie | 112.3 | 116.4 | (3) |
| A&P | 103.4 | 95.0 | 8 |
| Publix | 87.2 | 84.3 | 3 |
| Food Lion | 85.8 | 61.8 | 39 |
| Weis Markets | 76.0 | 65.3 | 16 |
| Giant Food | 75.6 | 46.5 | 63 |

[1] Includes results from Osco Drugs
Source: Company annual reports

A number of major players are missing from these charts because they are private companies. This makes it very difficult to obtain in-depth financial data on these companies and almost impossible for fellow retailers to make accurate comparisons.

It's likely, though, that many of these will eventually reappear. Reports are that one or two are already preparing to resubmit themselves to the scrutiny of Wall Street.

## HOME CENTERS

### Top 5 publicly-held home center sales leaders

| | 1987 sales (in millions) | 1986 sales (in millions) | % change |
|---|---|---|---|
| Lowe's Cos. | $2,442.2 | $2,283.5 | 7% |
| Payless Cashways | 1,770.2 | 1,527.7 | 16 |
| Home Depot | 1,453.7 | 1,011.5 | 44 |
| Hechinger | 725.1 | 588.4 | 23 |
| Scotty's | 515.3 | 493.9 | 8 |

Source: Company annual reports

### Top 5 publicly-held home center profit producers

| | 1987 net income (in millions) | 1986 net income (in millions) | % change |
|---|---|---|---|
| Lowe's Cos. | $61.2 | $52.2 | 17% |
| Home Depot | 54.1 | 23.9 | 127 |
| Hechinger | 41.9 | 28.2 | 49 |
| Payless Cashways | 28.1 | 42.4 | (34) |
| Scotty's | 10.3 | 13.5 | (23) |

Source: Company annual reports


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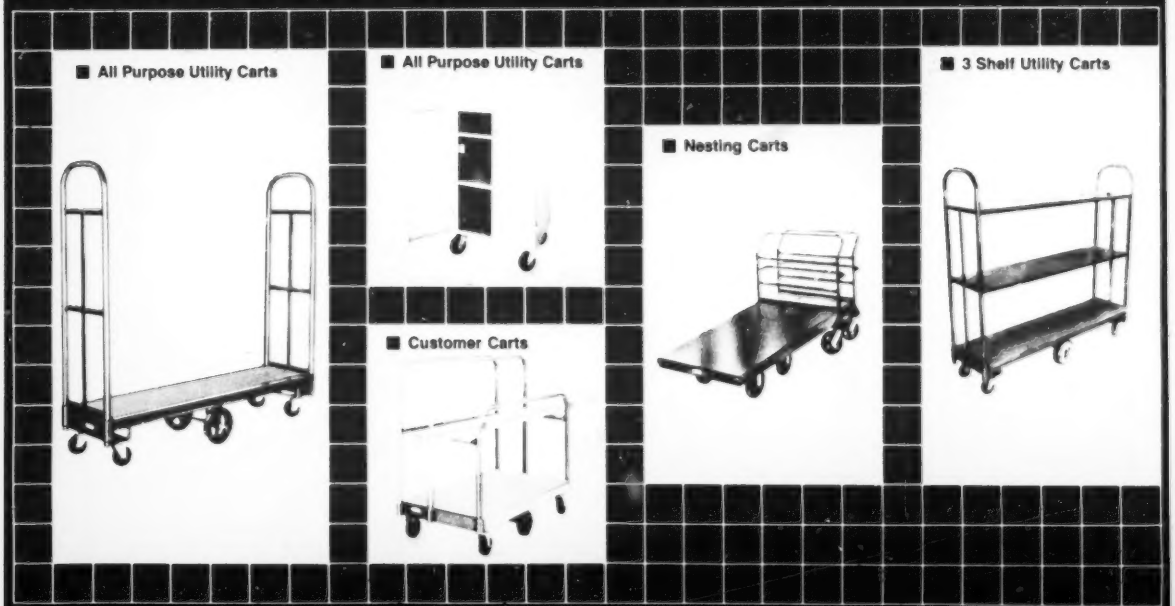


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# DEPARTMENT STORES FACE TOUGH YEAR

## INDUSTRY CONSOLIDATION CONTINUES, BUT PROFITS ARE GETTING THINNER

All the buying and selling certainly has put some excitement into department store retailing. Robert Campeau's promise to turn New York's Bloomingdale's into a national chain in itself has piqued broad interest.

The greater interest in department store retailing, however, does not seem to be ringing up either sales or profit gains. As measured by a number of key business yardsticks, 1987 was a tough time for even the best of department store operators. This year could be just as difficult.

Among the best is New York-based Mercantile Stores. In the last 10 years, Mercantile quietly has closed 26 stores and opened only 24 new ones. Just as quietly, the company has added more than $1 billion in sales and $100 million in profits—fueling its growth entirely from within.

CASTNER KNOTT: PARENT MERCANTILE ADDED $1 BILLION IN SALES IN 10 YEARS

Mercantile's $193 in sales per square foot now puts it in a league with such department store "power merchants," as R. H. Macy. Its 16.8% return on assets is one of the industry's highest. So, too, is Mercantile's $20.45 in operating profits per square foot (*see chart*).

Then there is Little Rock, Ark.-headquartered Dillard Department Stores. In only five years, the regional department store company aggressively has bought up new stores, more than doubling the number of units it operates.

Since 1984, Dillard's has picked up Stix, Baer & Fuller from Associated Dry Goods, John A. Brown and Diamond's from Dayton Hudson, R. H. Macy's former Midwest division, and both Cain-Sloan and Joske's from Allied/Campeau.

Along with mall developer Edward J. DeBartolo, this year Dillard's bought two more department store companies: Cleveland's Higbee's and Pittsburgh's Joseph Horne (*see accompanying chart*).

In the last five years Dillard's has added nearly $1.5 billion to sales and $70 million to profits.

Dillard's was one of the few department store companies that posted a hike in operating income (21%) that outpaced its sales gains (19%) last year. Operating income expressed as a percent of sales in 1987 beat even Mercantile's strong performance (10.7%, compared to 10.6%).

Both success stories contrast with the recent anemic pace of department store retailing. The weakness began in the third quarter of last year and only now gives indication of reversing.

In part, the spending slowdown was responsible for the unsuccessful attempt to acquire one department store chain in 1987 (Minneapolis-based Dayton Hudson) and the successful takeover of another in 1988 (Cincinnati-headquartered Federated Department Stores).

Those companies not immediately suffering a takeover attempt prepared for one anyway. Los Angeles-based Carter Hawley Hale, reeling from two takeover tries from Columbus, Ohio-headquartered The Limited, reorganized in 1987 to protect itself from more attempts to wrest control away from management.

The company spun off its prestigious Neiman-Marcus division along

### 1987 department store scorecard

| Company | % change sales | % change operating income | Operating income as % sales | Average sales per store | Sales per gross sq. ft. | Operating income per gross sq. ft. | Operating income as % of assets |
|---|---|---|---|---|---|---|---|
| Allied/ Campeau[1] | N.C. | N.C. | 10.3 | $13,885,106 | $149 | $15.34 | 9.2 |
| Dayton Hudson[2] | – 0.9 | –26.2 | 7.9 | 41,954,054 | 199 | 15.71 | 16.1 |
| Dillard's | +19.2 | +21.0 | 10.7 | 16,343,311 | 119 | 12.76 | 15.8 |
| Federated[2] | + 4.5 | – 8.0 | 7.9 | 30,633,613 | 157 | 12.46 | 12.8 |
| Hess's[2] | +40.5 | + 8.2 | 7.6 | 7,275,563 | 68 | 5.18 | 25.9 |
| May Co.[2] | + 7.5 | +11.0 | 10.0 | 24,050,388 | 138 | 13.73 | 15.4 |
| Mercantile | + 6.3 | + 4.0 | 10.6 | 27,286,747 | 193 | 20.45 | 16.8 |

[1]All figures in U.S. dollars. Includes results fron Ann Taylor specialty division
[2]Department stores only
N.C. = Not comparable
Source: *Chain Store Age Executive* research/annual reports

DILLARD'S: ACQUISITIONS ADD 53 STORES IN THE LAST THREE YEARS

**Department store consolidation (1984-88)**

| Year completed | Divesting company | Unit | Acquiring company |
|---|---|---|---|
| 1984 | Associated Dry Goods | Powers Dry Goods | Allied Stores |
| 1984 | Associated Dry Goods | Stix, Baer & Fuller | Dillard Dept. Stores |
| 1984 | Dayton Hudson | John A. Brown | Dillard Dept. Stores |
| 1984 | Dayton Hudson | Diamond's | Dillard Dept. Stores |
| 1984 | Federated Dept. Stores | Bullock's North | Various retailers |
| 1985 | Federated Dept. Stores | Boston Store | Bergner |
| 1986 | Alexander's | Alexander's (42%) | Interstate Properties, Bass Groups |
| 1986 | Allied Stores | Total company | Campeau Corp. |
| 1986 | Associated Dry Goods | Total company | May Dept. Stores |
| 1986 | B. Altman | Total company | Private investor group |
| 1986 | BATUS | Gimbels, Frederick & Nelson and The Crescent | Allied Stores (Campeau Corp.) |
| 1986 | Carter Hawley Hale | John Wanamaker | Woodward & Lothrop |
| 1986 | R. H. Macy | Midwest division | Dillard Dept. Stores |
| 1986 | May Dept. Stores | Joseph Horne Co. | Maverick Fund I |
| 1987 | Allied Stores (Campeau Corp.) | Blocks, Inc. | Federated Dept. Stores |
| 1987 | Allied Stores (Campeau Corp.) | Cain-Sloan | Dillard Dept. Stores |
| 1987 | Allied Stores (Campeau Corp.) | Donaldson's | Carson Pirie Scott |
| 1987 | Allied Stores (Campeau Corp.) | Joske's | Dillard Dept. Stores |
| 1988 | Federated Dept. Stores | Total company | Campeau Corp. |
| 1988 | Federated Dept. Stores (Campeau Corp.) | Bullock's, Bullock's Wilshire and I. Magnin | R. H. Macy |
| 1988 | Federated Dept. Stores (Campeau Corp.) | Foley's and Filene's | May Dept. Stores |
| 1988 | Higbee's | Total company | Dillard Dept. Stores, Edward J. DeBartolo |
| 1988 (pending) | Maverick Fund I | Joseph Horne Co. | Dillard Dept. Stores, Edward J. DeBartolo |

Source: Merrill Lynch, Pierce, Fenner & Smith

with its Contempo Casuals specialty stores into a new company. General Cinema, Carter Hawley Hale's "white knight" in The Limited's initial takeover attempt, got a majority interest in the new company.

Despite general weakness in the industry, Carter Hawley Hale is not the only company to choose a department store focus. Chicago-headquartered Carson Pirie Scott divested itself last year of its food service and other unrelated divisions so that it, too, could concentrate its attentions on department store retailing.

New York-based R. H. Macy, meanwhile, tried to solidify its position as a national chain by doing battle with Toronto-headquartered Campeau Corp. for control of Federated Department Stores earlier this year.

Although it lost that battle, Macy still emerged with San Francisco-headquartered I. Magnin along with Los Angeles-based Bullock's and Bullock's Wilshire (*Chain Store Age Executive*, May 1988).

Given Federated Department Stores' drops (compared to 1986) in sales per store, operating income, operating income per square foot and return on investment, perhaps the twin assault on it should have been no surprise.

Yet even the strongest companies last year had trouble keeping up the brisk pace of 1986. Perhaps the hardest hit was Dayton Hudson's department stores, which, compared to 1986, recorded drops in overall sales, sales per store, sales per gross square foot, operating income, and return on assets.

In retrospect, it is ironic that the company touted for excellence in a best-selling book had fallen so quickly. Landover, Md.-based The Dart Group's father/son team of Herbert and Robert Haft still saw the excellence in Dayton Hudson, and their takeover try was thwarted only by the stock market crash.

One of the few exceptions to the department store industry's overall lackluster performance was Hess's, the Allentown, Pa., department store division of shopping center developer Crown American. Back in 1979, Hess's was the first department store company to be acquired by a developer. The relationship has paid off.

Since then, Hess's has grown from 16 stores to 71. In 1987 alone, it added 30 stores. Sales jumped 41% last year. Operating profits gained a more modest 8.2%.

Modest is the best way to describe the department store industry. Last year, even Mercantile and Dillard's posted drops in several key indicators. This year might be difficult, too.

Neither company will be a tempting takeover target. Mercantile's management controls a significant portion of the company's stock. Dillard's, on the other hand, has forged a retationship with developer Edward J. DeBartolo that both helps it expand without incurring significant debt, and at the same time makes it a less likely takeover candidate. ■

DRUG STORE RETAILERS: IN THE PAST YEAR, 15 COMPANIES HAVE TRADED OR SOLD 155 INDIVIDUAL STORE LOCATIONS

# DRUG STORE CHAINS GROW BY SWAPPING UNITS

## BUYING EXISTING STORES FROM COMPETITORS CAN SOLIDIFY MARKET POSITION

Rite Aid has a strong market presence in Buffalo, N.Y., and management for the Shiremanstown, Pa.-based drug store chain wants to keep it that way. So when an opportunity to purchase 13 additional Buffalo area sites—nine Brooks Drug stores from Rhode Island-based Adams Drug and four units from Twinsburg, Ohio-headquartered Revco—popped up, Rite Aid executives jumped at the opportunity.

"Because we are so well established in Buffalo and have a major presence there, it made sense to buy these stores. The economies of scale—such as advertising and distribution—are in our favor," explains Philip Markovitz, Rite Aid's vp-real estate.

The chain already knows a thing or two about economies of scale. Rite Aid operates more than 2,000 stores nationwide. Sales for the year ended Feb. 27, 1988 were $2.5 billion.

Rite Aid, however, is not the first company to discover the benefits of buying up stores from—or in some cases swapping stores with—competitors to solidify its position in a strong market. Instead of acquiring entire chains, drug store retailers more frequently are purchasing individual units from other similar companies.

In the past year, according to *Chain Store Age Executive* research, 15 drug store companies have either traded or outright sold 155 individual store locations (*see chart*).

All the store swapping and selling is benefiting both sellers and buyers. Stores that are sold usually are unprofitable for the owner. In turn, the buyer usually has an already-strong presence in an area, and adding units strengthens his position.

Another impetus to the buying and selling frenzy is the simple need to raise cash. Many companies, such as Revco and Clearwater, Fla.-headquartered Eckerd, need to sell stores to extinguish debt incurred in expensive leveraged buyouts. Eckerd went private via an LBO in April 1986. Revco took the same route—more successfully—later that same year.

One company that has taken advantage of the situation is 190-store Big B, based in Bessemer, Ala. Management for the $249 million drug chain purchased 13 units from cash-hungry Eckerd last year.

"Companies such as Eckerd are selling off some of their stores, and it is a chance for us to strengthen our own companies," says Mac Jones, executive vp for Big B.

All 13 units that Big B bought are located in Alabama, which is Big B's strongest market area. What's more, the conversion was simple because Eckerd's units there were approximately 9,000 sq. ft., comparable to the size of a typical Big B unit.

Like Eckerd, Revco has sold off stores to raise cash to pay off debt. Rite Aid has been the big beneficiary of the Ohio-based chain's troubles. In addition to picking up four locations in Buffalo, Rite Aid bought 11 Revco units in southern and central Florida.

"We sold the Florida stores to Rite Aid because we are in a sell mode now, not an acquisition mode. We are in a position of protecting existing markets," says Kathy Obert, public relations director for Revco. "Our philosophy is if we are not in a dominant position in a market, then we want to sell our stores," she adds.

The trend, however, is bigger than just cash-weak companies selling off to the cash-rich. Osco Drugs, a division of Salt Lake City-based American Stores, recently did a swap deal with Walnut Creek, Calif.-based Longs Drug Stores. Longs relinquished 14 of its units to Osco, and, in turn, purchased 11 Osco units. This enabled retailers to exit from weaker markets and enhance their presence in ones where they were already

## Drug store acquisitions

| Company | Acquisitions | Store locations |
|---|---|---|
| Big B, Bessemer, Ala. | 13 Eckerd stores | Alabama |
| City Drugs, Panama City, Fla. | 19 Revco stores | Texas |
| Eckerd, Clearwater, Fla. | 7 Revco stores<br>3 Arbor stores | Birmingham, Ala.<br>N.C. and S.C. |
| Revco, Twinsburg, Ohio | 5 Eckerd stores | Brownsville, Tx. |
| Rite Aid, Shiremanstown, Pa. | 9 Brooks stores<br>15 Revco stores | Buffalo, N.Y.<br>Buffalo, N.Y. and central and southern Florida |
| Osco, Oakbrook, Ill. | 14 Longs stores | Arizona |
| Longs, Walnut Creek, Calif. | 12 Osco stores | California and Colorado |
| SupeRx, Phoenix, Ariz. | 3 Walgreens<br>8 Defender Drug<br>2 United Discount Drug | Alabama<br>Arizona<br>Arizona |
| Hook-SupeRx, Cincinnati | 19 Eckerd stores | Virginia and West Virginia |
| PayLess NW, Wilsonville, Ore. | 24 Osco stores<br>2 Longs stores | Washington, Idaho Oregon, California<br>Arizona, Oregon |

Source: *Chain Store Age Executive* research

strong.

"This was a move to gain market share for us. We gave Longs a stronger presence in northern California and they gave us a stronger presence in Phoenix and Tucson," says John Kromer, director of public affairs for Osco.

This kind of swapping will increase as competition in the retail drug industry intensifies, says Elaine Smith, analyst with Nashville-based Equitable Securities.

"We've seen a lot of chains expanding rapidly. In addition, we also have seen growth in drug store sections of supermarkets and discount stores. Retailers have shifted territories to build a stronger market share. They realize that there are too many stores going after the consumer's dollar, and this is why we are seeing the consolidation," she says.

For example, part of the appeal for Big B's management when it purchased the Eckerd units in Alabama was to eliminate some of the competition that exists in that market.

Compounding all of this is the fact that it simply is more cost-effective to purchase a store that already exists rather than to build a new unit. That's why management at Wilsonville, Ore.-based PayLess Drug Stores Northwest, decided that the best way for the chain to expand was to purchase 24 units from Osco in October 1987 and two from Longs in January 1988.

At SupeRx in Phoenix, acquiring stores has been its primary source of growth since it began operating in April 1987. SupeRx used to be a division of Cincinnati-based Kroger. The supermarket chain divested this group, sold some stores to Rite Aid, and sold the remaining 48 units to SupeRx.

In November 1987, SupeRx purchased three Walgreens units in Alabama, and in March 1988 it purchased six Defender Drug stores and two stores from United Discount Drug in Arizona. SupeRx now operates a total of 61 stores in Alabama, Arizona and Georgia.

"Most of our growth has been through acquisition. One of the key advantages of acquiring, rather than building from scratch, is that the store already has an existing prescription file. Because the store has volume, the new owner can start generating profits immediately," says Tommy Thomas, vp-marketing for SupeRx.

Although the buying and selling of drug stores seems to be widespread among drug store retailers, some experts say that it is not an entirely new phenomenon.

Others, such as Revco's Markovitz, disagree. "I think that this is a trend, and that we will continue to see it happen more and more," he predicts.

It doesn't necessarily mean, however, that chains will buy just for the sake of buying, he says.

"Retailers are being very selective. When we look at a group of stores, we examine each store individually. We ask ourselves if it is a good location and if we would build a store there," says Markovitz. "We are also interested in opening a certain number of stores every year. Therefore, every location is an opportunity for us." ■

**—Rhonda Razzano**

**EXISTING VOLUME: ADVANTAGES INCLUDE GENERATING PROFIT IMMEDIATELY FOLLOWING ACQUISITION**

# SURVEY SHOWS INCREASE IN 1989 MIS BUDGETS

## POLL OF RETAILERS REPORTS INCREASE IN POS SHARE OF CAPITAL EXPENDITURES

Many retail operations budgets might get slashed next year, but not the Management Information Systems (MIS) capital budget. A majority of retail chains are planning for a gain in 1989.

Point-of-sale equipment (especially programmable cash registers and microcomputers) are slated for increased expenditures.

These are some of the conclusions of the first *Chain Store Age Executive* Retail Technology Census, an exclusive survey of retail Management Information Systems professionals.

The major reasons for increases in MIS capital budgets in an era elsewhere characterized by austerity: "We expect information technology will give us a competitive edge by reducing labor costs, increasing productivity and providing better and more timely information," sums up one convenience store MIS director.

That is a heady goal, and one repeated frequently by the information systems professionals participating in the Retail Technology Census.

In particular, Universal Product Code (UPC) scanning at point-of-sale appears as one of the continuing factors driving up MIS capital outlays, according to the poll.

POS SYSTEMS: GETTING TOP PRIORITY IN 1989 BUDGETS

The purpose of the survey, conducted in late June, was to gauge the level and direction of MIS capital spending for next year.

*Chain Store Age Executive* mailed questionnaires to more than 600 retail MIS executives, evenly divided among the 100 biggest companies in each of six retail categories: drug stores, supermarkets, home centers, discount stores, department stores and specialty stores. All respondents were promised complete anonymity.

About 7% of the questionnaires were returned by the survey cut-off date. Twenty-five percent of the responding retailers work for specialty stores, 20% are at department stores, 18% each at drug and discount stores, 13% at home centers and 10% from supermarkets.

Chains responding to the poll represent retail sales of over $21.9 billion. The smallest will ring up sales of $30 million this year. The largest will see its sales top $4.5 billion.

Next year, the combined MIS capital outlays for all the retail companies in the survey will exceed a quarter-billion dollars.

Big or small, a common theme runs throughout the survey responses. MIS capital budgets will be upped next year. Fifty-five percent of the Information Systems professionals report that their outlays will increase in 1989. Another 25% say that budgets will stay the same next year. Only 19% predict a spending downturn. Those few who cite reduced spending often mention unusually large expenditures this year.

Why the upturn in a cost-cutting environment? Growth is one answer. "We are a growing chain, and one of the ways we can grow efficiently is through automated systems," says a discount store retailer.

In addition, Management Information Systems are increasingly viewed by top management as an investment with a quick payback.

"The rate of return from cost savings offers potential exceeding other capital expenditures under consideration," responds one drug store retailer.

"We want to take advantage of technology to be more productive and reduce overall company costs," says a supermarket operator. (Though he notes wryly, "MIS incurs the cost and user departments receive the benefits.")

"The MIS budget will increase," says one specialty retailer, "due to rapid growth and a high level of innovation related to in-store and merchandising systems."

On the average, retailers in the poll report that MIS capital outlays will total 1.05% of sales in 1989. (For comparison, a similar study published a year ago by New York-based consultant Arthur Young found that MIS spending at retail companies in 1986 totaled 0.94% of sales. In 1985 the number was 0.88%)

What will retailers actually buy next year? Point-of-sale systems, say Information Systems professionals in the survey, will get top priority in 1989. Of the six potential areas of spending in the poll, POS is the only

### Current and projected use of POS hardware

| | % already use | % expect to add |
|---|---|---|
| Electronic cash registers | 60.5% | 25.0% |
| Programmable cash registers | 63.2 | 55.3 |
| Hand-held terminals | 42.1 | 39.5 |
| Micro/PCs with cash drawers | 18.4 | 29.0 |
| Mechanical cash registers | 13.2 | 2.6 |

Source: *Chain Store Age Executive* research

## MIS capital budget breakdown

| | 1988 % | 1989 % |
|---|---|---|
| Hardware | 27.6% | 22.5% |
| POS devices | 18.3 | 23.9 |
| In-store systems | 13.0 | 11.0 |
| Software | 18.3 | 12.3 |
| End-user microcomputers | 7.8 | 8.1 |
| Warehousing/distribution systems | 5.6 | 4.6 |
| Other | 9.4 | 17.6 |
| Total | 100.0 | 100.0 |

Source: *Chain Store Age Executive* research

one that will get an increased part of the MIS capital budget next year.

POS systems account for 18.3% of information systems capital outlays in the current budget, but will take 23.9% of next year's budget, say the retailers.

In particular, more than half (55.3%) of the MIS executives in the survey say that they expect to add programmable cash registers in 1989.

Another 39.5% plan to add handheld terminals. Only 2.6% say that they will buy mechanical cash registers.

The big gainer, however, will be microcomputers with cash drawers. Though only 18.4% of retailers in the Retail Technology Census report that they currently are using micros with cash drawers, 29% report that they expect to add PCs in 1989.

Micro PCs with cash drawers will be most prevalent in specialty stores, the survey indicates. In environments that require high levels of service and information, PCs look like the answer to many specialty retailers in the poll.

The overall gain in POS spending continues a trend of several years standing. An even greater commitment to UPC scanning at point-of-sale is driving the market.

"We will be spending more for hardware and software to meet needs for UPC scanning at POS," says one discount store information systems executive. "We'll be 100% scanning by the end of 1988," he notes.

Citing a "drastic need for automated data capture in stores," one specialty store retailer adds that his chain's emphasis on POS is part of the store's first Information Systems "clean up" in 12-15 years.

Other retailers mention the need to update systems to coordinate a conversion to Electronic Data Interchange and Quick Response.

"We want to be a leader in EDI, Quick Response, PLU and customer service," says one department store MIS executive.

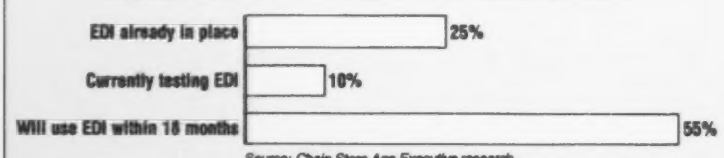
Says another department store retailer: "We are looking at investment for POS data collection to sku, color, size and EDI."

## Majority of retailers to use EDI next year

**Electronic Data Interchange (EDI) is finally becoming a reality. One-fourth of the retailers polled in the *Chain Store Age Executive* Retail Technology Census say that they already have an EDI system in place. Another 10% report that they now are testing EDI with a pilot project.**

**More significantly, 55% of the retail executives in the survey report that they expect to adopt EDI within the next year-and-one-half. Altogether, 63% of the MIS professionals say that they will implement EDI at some time.**

**Until recently, it appeared as if EDI would garner more talk than action. As recently as a year ago, fewer than 1 in 10 of the retailers were using EDI, and fewer than 1 in 20 had a pilot project under way.**




Source: *Chain Store Age Executive* research

More than half of the retailers in the poll say that they expect to have Electronic Data Interchange up and running within the next year and a half. One-fourth already are using EDI. Another 10% are testing a pilot project now (*see accompanying story*).

With more retailer companies opting for reduced merchandising staffs and more centralized decision-making, EDI has become a critical priority for some.

"EDI will be a particularly strategic system for us due to our centralized management style and need for fast flow of information back and forth to outside sources," says a discount store Information Systems executive.

Still, the biggest part of MIS capital outlays next year will go to hardware. Though hardware once again is taking the biggest overall bite out of the budget, the bite is getting smaller.

Information Systems professionals in the Retail Technology Census report that 22.5% of next year's capital budget will go to hardware. This compares to the 27.6% being spent this year, according to the survey.

Though spending for the biggest computers will slow, expect microcomputers to get a boost next year, say the retailers in the poll.

"We are going with higher PC dependency," explains one department store executive, "to supplement mainframe applications."

Software expenditures, however, will slacken. In 1989 MIS capital budgets, 12.3% of total expenditures will go to software, say the retailers. In this year's budget, software accounts for 18.3% of capital spending.

The reason for the reduced spending on software is simple enough. Most retail MIS departments have just completed major software projects and acquisitions.

In-store systems will get 11% next year (compared to 13%), while warehousing and distribution systems will get 4.6% (compared to 5.6%).

Telecommunications, in contrast, is one of a number of categories retailers say will get an increased part of the budget next year. Top of the shopping list are voice messaging, call attendant and WATS services.

In the end, the next challenge for MIS executives might have more to do with people than with machines. "Retail companies must be more competitive when hiring new programmers and project leaders," warns a discount store retailer. It could be a tough challenge. ■

# NOTE

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